BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20054

In the Matters Of	)	
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
	)	
Forward-Looking Mechanism for High Cost Support for Non-Rural LECs	)	CC Docket No. 97-160
	)	

COMMENTS OF ITCs, INC.

ITCs, Inc., an economic cost consultant to independent telephone companies serving America's rural areas, on behalf of Chariton Valley Telephone Company, Columbine Telephone Company, Cunningham Telephone Company, ETEX Telephone Cooperative, Mokan Dial, Inc. - Kansas, Mokan Dial, Inc. - Missouri, Steelville Telephone Company, South Central Telecommunications of Kiowa, South Central Telephone Association - Kansas, South Central Telephone Association - Oklahoma, Tri Country Telephone Association, Inc., TCT West, Inc. and Wiggins Telephone Association, by its counsel, respectfully responds to the Commission's invitation for comments in the above captioned proceeding.[1]

I. BACKGROUND

1. From the onset of local telephone service provisioning over 120 years ago, there has been a dependency on some form of support in order to foster the local service element of the telephone industry. As the industry grew, contributions became much more defined both in terms of the source

[1] *In re*, Federal-State Joint Board on Universal Service Forward-Looking Mechanism for High Cost Support of Non-Rural LECs, Further Notice of Proposed Rule Making, Rel. No. 97-256, CC Docket Nos. 96-45 and 97-160, (July 18, 1997) ("*FNPRM*").

of support as well as the recipient. Eventually the concept of universal service matured from a business interest, to a corporate goal (in exchange for a regulated utility status), on to a matter of public policy, and finally, formally embodied in legislation.

2. The underlying philosophy of providing Universal Service support and the support mechanisms have been the very basis for the high degree of success in achieving Congress" universal service objectives and in the foundation for the economic success and world leadership the United States now enjoys. Further, economic success is a critical element in the well being of the population which is, again, a characteristic of this country's society.

3. It is the barriers of distance and density that must be conquered in order to achieve universal service, and it is in the rural areas of the country that these barriers are the greatest and therefor require continued support. This support will be necessary until these barriers are broken down by the advance of technology.

4. ITCs recognizes that the instant proceeding applies to non-rural LECS; however, ITCs respectfully submits comments in this proceeding for two reasons. First, the orders and rules that will result from this proceeding will apply to serving areas that are adjacent to, or even interwoven with, areas served by rural LECs. Accordingly, should the USF system produce different results, rates for local service and access in rural areas will not be comparable which is contrary to the Communications Act. Second, the history of telecommunications regulatory policy in this country is replete with examples of the "shadow effect" wherein the practices associated with major providers find their way into small company applications. Therefor, participation in this proceeding is in the best interests of the rural provider and is in public interest of those who receive their telecommunications services from rural LECs.

II. **Cost Models - General**

5. As a point for the record and in full recognition and appreciation for the Joint-Board Recommendations and the Commission's previous Orders and Rules in the Universal Service proceeding, ITCs is seriously concerned about the application of both forward-looking cost methodologies and models reflecting that approach. Hypothetical accounting mechanisms and the costs they produce are never long-lived because, after all, investors do not invest based on hypothetical costs, customer revenues cannot be expected to cover hypothetical costs, suppliers do not ship or construct networks based on hypothetical costs and neither hypothetical dividends, interest payments, nor hypothetical taxes are ever paid. It is important to note that the only area where hypothetical mechanisms prevail is on the books of businesses which have failed.

6. Of greatest concern to ITCs is that either the customer or the provider of telephone service will be compromised in this process since a happy medium is doubtful. Accordingly, one must scrutinize the Communications Act and determine whether there is room for such compromises within the context of the Act.

7. Finally, the only benefit to a hypothetical accounting mechanism might be relief from what some people may perceive as an administrative burden and the fact that the recipient of the USF support will never have to demonstrate that the funds were used for their intended purpose.

III. **Switching**

8. On the issue of switch mix, obviously, technology is bringing greater economies of scale with each new model of switch. Accordingly, consolidation is very much in order. However there are some things that must be considered in the process.

9. First, one must consider to what degree a company or exchange boundary affects a model. If carried to what might be perceived as an illogical conclusion, a single super switch may meet the requirements of a group of companies or even a whole state. In other words, the FCC must establish some parameters that define administrative reality along with the economies of scale.

10. Second, the use of remote switching devices assumes a condition that may not be least costly nor more effective in the future. For example, the use of Digital Loop Carriers ("DLC") as field concentrators, interconnected with a ring of fiber which includes a host has proven highly cost effective with significant increases in service quality. However, technology is rapidly changing and, there are many ways to build low cost, highly efficient and reasonable networks. What might appear as best today will probably only be second best tomorrow. Therefore, the Commission should adopt a mechanism that will permit a company to update the technology of its network with new more efficient technologies and receive support based on these updates.

11. ITCs offers two suggestions as possible alternatives to the FCC's tentative conclusion. First, multiple switch configurations could be offered to the model user and each configuration could be applied based on the specific operating conditions of a particular company. If the multiple exchange and related switches homing on a tandem are being replaced, then the host remote concept may work. On the other hand, if the terrain and geographical distribution of small villages or clusters of residences permit use of a DLC, then DLCs might be the best approach and should be made available to the user.

12. Second, and highly recommended by ITCs, the FCC could prescribe an optimal level of costs per unit of service given a set of circumstances and derive the switching costs accordingly; that is, without consideration of the technology to be employed. It seems that rather than limiting a carrier's

support to specific technologies, basing support on the costs per switched minute of use or costs per loop for the various switching components may be more practical and accurate.

IV. **Capacity Constraints**

13. The Commission's tentative conclusion that capacity constraints should dictate the number of switches necessary at a particular wire center leaves a marvelous opportunity for an entertaining but less than fruitful debate among engineers and manufacturers. In other words, is there really a right answer. Again, ITCs suggests the Commission use the costs per unit of service as the vehicle for determining the total costs for an item of investment.

V. **Percent of Switch Assigned to Port and to Provision of Universal Service**

14. ITCs supports the Commission's separation of switch costs into "line-side port" and "usage" costs (See *FNPRM* at ¶ 135) as was the case before the January 1, 1988 changes to the separations procedures. At that time, as now, the distinction between these types of switching costs recognizes the difference in the cost basis between non-traffic sensitive and traffic sensitive switching components. However, ITCs does not concur with the FCC's decision to support only the non-traffic sensitive costs at only 25 percent of the total high cost requirement. See, *FNPRM* at ¶ 135; see also, Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Report and Order, FCC 97-157 (released May 8, 1997) at ¶ 201. This 25 percent limitation is not founded on fact but rather is based on an arbitrary allocation resulting from the deliberations surrounding establishment of the present day Universal Service Fund. To extend the logic from these deliberations into application in a future USF environment fails to recognize the fact that federal support mechanisms have gone far beyond the boundaries of intrastate and interstate regulation. It stands to reason that by taking

such a limited approach, the Commission has failed to recognize the support flow that currently exist between the high density areas of the country and the low density rural areas. Simply stated, the low density, high cost rural states do not have the intrastate resources to accomplish Congress' universal service goals and meet the comparable service and costs provisions of the 1996 Act.

VI. **Interoffice Trunking, Signaling, and Local Tandem Investment**

15. ITCs supports the Commission's tentative conclusion that interoffice trunking, signaling and local tandem facilities should be disaggregated and cost estimates for these interoffice elements should be generated at the lowest level of specificity necessary to produce accurate results. Further, there are too many variables involved in the provision of service to rural areas to leave these items to a simple multiplicative approach. After all, it is the rural services provided by the non-rural carriers that will be affected by the more precise mechanisms, not the provision of urban services because urban services have more predictable patterns of costs that could be subject to a factor approach. This does not necessarily mean that the situation surrounding rural areas is more complex, but rather it is more variable. For example, distances vary depending on social patterns, signaling can often depend on intercompany working relationships along with individual engineering judgments, and tandem requirements can depend on a variety of unpredictable factors. Accordingly, ITCs urges the Commission to adopt a mechanism that uses a dissaggregated approach wherever accuracy will be improved.

VII. **Conclusion**

16. ITCs appreciates the opportunity to comment and agrees with the staged approach taken by the Commission. Due to the many variables involved in the provision of telephone service and the ever changing technologies, ITCs suggests that a cost per unit approach to switching costs is

preferred over the selection of a specific technology and the use of capacity constraints as a basis for determining the amount of support available. Finally, the highest level of disaggregation that is reasonable should be implemented due to the high degree of variability in rural areas.

Respectfully Submitted,

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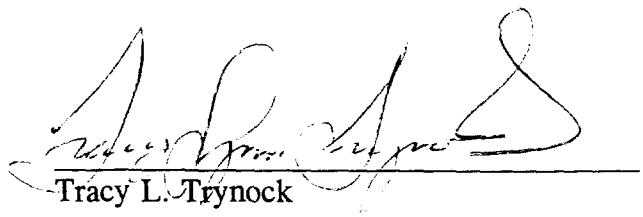
August 8, 1997

CERTIFICATE OF SERVICE

I, Tracy L. Trynock, hereby certify that on this 8th day of August, 1997, copies of the foregoing "Comments of ITCs, Inc." have been served by first-class United States mail, postage pre-paid, upon the following:



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